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SUBJECT: SOCIAL STABILITY IN ZHEJIANG: CALM FOR NOW

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[1](#)B. (B) SHANGHAI 23
[1](#)C. (C) SHANGHAI 28

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CONSULATE SHANGHAI, U.S. DEPARTMENT OF STATE.
REASON: 1.4 (b), (d)

Summary

[1](#)1. (C) Zhejiang Province remains relatively calm despite continued concerns about post-Lunar New Year social instability as a result of the province's failing economy, contacts told Poloff during a February 4 visit to Hangzhou, Zhejiang's provincial capital. Some cities are in better shape than others, our contacts said, but there are concerns about the province about how factory closures will affect other industries in the supply chain. Still, Zhejiang is fortunate with regard to social instability because unlike Jiangsu Province, most of Zhejiang's migrant workers are not natives of the province, and they can be sent home in the event of a crisis. Our contacts were unanimous in downplaying the impact of Central Government remedies to address the economic downturn in Zhejiang, adding that Premier Wen Jiabao's role in economic policy is likely to be diminished. End Summary.

Zhejiang Calm for Now

[1](#)2. (C) Economic and political contacts in Hangzhou told Poloff on February 4 that the macroeconomic situation and related concerns about social stability have changed little since early December (Ref A). Ye Hang, a Zhejiang University economics professor, said the economic situation is basically the same. He dismissed optimistic reports of robust retail sales in Zhejiang during late 2008 and early 2009, stating that the consumption was seasonal as a result of the Christmas and Lunar New Year holidays, and retail consumption likely will nosedive in Zhejiang in the second half of the year.

[1](#)3. (C) Wen Kejian, a writer and activist for China's Independent PEN, agreed with Ye, telling Poloff that Zhejiang is calm for now, but 2009 definitely will be a "tough year" on the social stability front because of factory closures. Wen pointed out that factory closures not only have a detrimental effect on employment, but Zhejiang's private enterprises also contribute a significant amount of the provincial government's tax revenue, and Zhejiang's fiscal situation is being squeezed between slowing revenues and a greater demand for public funding to pay laid-off workers. Su Zhenhua, a professor of public administration at Zhejiang University, lamented that there still is no transparency on fiscal expenditures, meaning that Zhejiang's residents have no idea if the fiscal situation could seriously strain the provincial and/or local governments.

Shaoxing vs. Yiwu: Lessons from the Downturn

¶4. (C) Predicting Zhejiang's future economic prospects is difficult, however, because different cities in the province have had different experiences. For example, Ye Hang said, Shaoxing, which is near Hangzhou and is a primary exporter of textiles to the United States and Europe, clearly is struggling (Ref A), but on the other hand, Yiwu, a producer of commodities in the western part of the province is slightly better off (Ref B). Ye identified two reasons for Yiwu's insulation from some of the economic downturn: (1) the city produces a wide range of commodities and is therefore not as susceptible to a fall in demand for one product such as textiles, and (2) Yiwu's exporters target markets in the Middle East, Africa, and Latin America, as well as North America, and have therefore not been hit quite as hard by declining demand in the United States. Shaoxing's textile markets, however, have grown quiet with few buyers, and many of the city's major textile factories have closed.

Zhejiang's Supply Chain -- The Guangdong Problem

¶5. (C) Zhejiang's supply chain likely will face problems in the second half of 2009 related to factory closures, and the province's service sector also will be affected, Ye said. Much like the current situation in Guangdong Province and the Pearl River Delta, factory closures also will have an adverse impact on other sectors in the economy. Ye pointed out that small and medium sized enterprises (SMEs) that supply textile firms also are closing, and restaurants that serviced industrial sector workers will struggle after the Lunar New Year. As a result, Ye said, he is "not optimistic for 2009."

Migrant Workers: Not a "Local" (Bendi) Issue

¶6. (C) Zhejiang's has an advantage with regard to social instability, our contacts said, because unlike Jiangsu Province, most of Zhejiang's migrant workers are not natives of the province, and they can be sent home in the event of a crisis (see Ref C on Jiangsu's migrant worker situation). In Zhejiang, social instability will not be a "local" (bendi) problem, because many migrant workers already have left the province, said Wen. Migrant workers who return to Zhejiang after the Lunar New Year will be "flexible," said Ye Hang, which will allow many workers to find jobs even if their employment is with a different industry than in the past. By April, Zhejiang will have a better idea of the jobs picture for migrant workers, Ye stated. Unfortunately, the provincial government will then need to turn its attention immediately to finding jobs for this year's university graduates. Zan Aizong, also a writer for the Independent PEN, said on February 4 that based on his Lunar New Year visit to his hometown near Fuyang in the northern part of Anhui Province, he thinks many migrant workers may have saved enough money to stay home until the summer.

Central Government Policy Will Have Little Effect

¶7. (C) Central Government policy will not solve Zhejiang's problems, our contacts said. Commenting on the Central Government's upcoming "Two Meetings" with the March sessions of the National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC), Wen Kejian said the NPC "can talk but won't have solutions." Ye added that the NPC likely will only reiterate the policies that were announced at the Central Economic Work Conference in December 2008, including promoting the Central Government's economic stimulus package.

¶8. (C) From a long-term perspective, Ye said, he is also concerned that the Central Government's insistence that local governments offer assistance to companies in order to avoid factory closures will have a detrimental effect on private sector development. With China's planned economy history, Ye said, companies may grow overly dependent on government bailouts if they are offered to maintain social stability.

Wen Jiabao: Premier is on a Leash

¶9. (C) Our contacts said Premier Wen Jiabao's role in economic policy is likely to be diminished. There is more political

pressure on Wen Jiabao because of the economic downturn, said Wen Kejian and Su Zhenhua, but the Premier likely will keep his job even if he is less influential. (Comment: Wen and Su were more interested in discussing a recent incident during a press conference in London when a European threw a shoe at Premier Wen than they were in talking about Wen's role in domestic economic policy. End Comment.)

Comment: The Sky Is Not Yet Falling

¶10. (C) Hangzhou-based contacts said there has been little change in Zhejiang's economic situation since early December. With most migrant workers home for Lunar New Year, there have been no recent reported incidents of social instability. Our contacts remain pessimistic about the second half of the year, but they acknowledge that it is difficult to predict what impact the economic downturn will have on social stability. Comments by academics and activists provide a good contrast to official government pronouncements that tend to be more optimistic. If Poloff's February 4 visit is any indication, the sky is not yet falling in Zhejiang, but the province clearly is struggling and is likely to face more severe socio-economic difficulties in the latter half of 2009.

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